The World Bank and Low-Income Countries: The Escalating Agenda

by William Easterly

I have a very simple message about the World Bank and low-income countries. To be effective, the World Bank needs to have in place a set of tasks, a mission, and an incentive system that will create accountability for results. Accountability for results implies that there will be some reward for getting results and some penalty for not getting results. That's the first message.

The second message is dispiriting. The World Bank in low-income countries is now and has been for a long time suffering from a really bad case of mission creep. Such mission creep has taken it farther and farther away from tasks on which it is even feasible to have accountability. To reverse that trend is really the first step in having a World Bank that is accountable for achieving results in low-income countries.

Let me tell you what I mean by "mission creep" and how this is a long-run tendency. There have been a lot of interventions that have been tried, and these interventions have been unsatisfactory, leading the World Bank to try an ever more ambitious and extensive set of interventions in an attempt to make up for the failure of the previous interventions. To get concrete, in the early days, The World Bank was all about roads, dams and schools. The mentality was, if you build it, they will come—by doing specific projects that would create tangible outputs.

To be fair, there was some success in that period. There were successes at building roads, dams and schools. There were successes at building infrastructure for clean

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water, and indicators of access to those services have actually gone up in Africa. In fact, one of the success stories that is not talked about enough in the literature is that there have been some major achievements in Africa and they usually have to do with the specific project tasks that used to be the main mission of the World Bank.

There was also a certain level of dissatisfaction that such specific projects did not bring rapid development to Africa, and so then we move to the next phase. The idea took hold that to be effective, project interventions needed to take place in the presence of good macroeconomic and microeconomic policies, mainly free markets, free trade, low government deficits, macro stability—the Washington consensus. This line of thinking brought us to the age of structural adjustment.

The World Bank, beginning in 1980, started making loans conditional on adopting a large number of policy reforms in an attempt to redress what was perceived as a gap in the previous effort, or as a reason why the previous effort failed: that the interventions were not themselves enough to create development, because if the overall policy environment was so badly distorted, then development would not happen.

Unfortunately, structural adjustment did not work. Growth did not happen. Policy reforms were very erratic and uneven. The consensus in the scholarly literature currently is that, overall, structural adjustment lending failed to attain its objectives.

If you want to go beyond the scholarly literature, then there is a simple stylized issue of real import, which is the main topic on the agenda of the IMF-World Bank meetings this weekend, and that is debt relief.

Debt relief is talked about as sort of this benevolent thing that rich countries are doing for Africa, but what we forget is the flip side of debt relief, that debt relief is really a sign of the failure of structural adjustment.

It is precisely those countries that got a lot of structural adjustment loans that became HIPC (Heavily Indebted Poor Countries), and thus found themselves in need of debt relief. The fact that they could not pay back zero interest loans with a 40-year maturity is itself a completely compelling sign that structural adjustment lending had failed in these countries.

That is true not only of the obvious failures that had negative growth in Africa (which are the majority of those who received structural adjustment loans). It is also true of those that are touted as success stories of structural adjustment—countries the likes of Uganda and Ghana are also getting debt relief. Even the success stories have not been able to pay back structural adjustment loans.

Then we have the next wave of escalation, which maintained that if policies were not the answer, then institutions must be, meaning that the task of international agencies like the World Bank should be to try to promote change and progress in institutions.

There are also various kinds of new vehicles loosely related to promoting institutions, like the new poverty reduction strategy papers, and, in general, all kinds of initiatives to try to promote institutions. I have difficulty understanding exactly how these initiatives are supposed to work, for the simple reason that no one really knows how to change institutions from the outside.

We can think of specific piecemeal things that would change institutions for the better. However, we really do not yet know how to achieve a wholesale transformation of institutions. The evidence that we have is that, if anything, aid leads to a worsening of good governance in recipient countries.[1]

That is essentially where we are now, except in some countries there has even been a further step, indeed an even more ambitious one, which is in the states that are called "failed states." It is in these countries where we have even more escalation, where international organizations would actually take over some of the functions of government and have some kind of new trusteeship type arrangement in failed states. This is exceedingly difficult, no doubt, and yet a further escalation of the current thinking that if we can't change institutions from the outside, let's ourselves become the institutions and take over.

What, then, is going on here? Why do I say that escalation has taken us farther, and taken the World Bank ever farther and farther away from being accountable?

Well, there are two big problems with this escalation. One is measuring results and the other is what the results depend on. Measuring the World Bank's effort and second, what the outcomes depend on. So you can see with each successive step, it becomes more and more difficult to measure the World Bank's effort.

It was easy to measure the World Bank's effort when it was just building a road or building a dam—something highly visible, that could be monitored and accounted for—and it would be very embarrassing if the World Bank gave money for a road and it was not built.

With structural adjustment it became much more difficult to hold the World Bank accountable for the goal of changing policies and the effort that goes into changing policies.

Of course, the natural question is: how do you measure what policy would have been without World Bank intervention? How do you actually measure changes in policies? Policies are a very ill-defined set of lots of different actions.

With institutions, it becomes even more difficult to measure progress, and of course with post-conflict reconstruction, where you're trying to change everything, then the game is up and it becomes hopeless to try to measure the World Bank's contribution.

The second problem for accountability with the mission creep of the World Bank is that with each step of escalation the results depend on more and more factors besides simply what the World Bank does. When the World Bank is building a road, the outcome mainly depends on the actions of the World Bank itself. The World Bank can pretty much determine whether a road gets built or does not get built.

Yet with changes in policies, there are now many actors trying to influence the country to change even more policies, and more so with institutions. Such changes depend not only on outside factors but also domestic political factors, meaning that it becomes increasingly routine to escape accountability because if something goes wrong, everybody can point fingers at everybody else.

The World Bank can say it is the IMF's fault, the IMF can say it's the World Bank's fault, or they both can say it was the recipient government's fault. Alternatively, the recipient government can just say it was the fault of politics that left them powerless.

Blame can also be leveled against outside factors like a hurricane or terms of trade shock, meaning that nobody can be held accountable for the results in these areas. So it becomes overly burdensome to simply hold the World Bank accountable for efforts in these areas.

To make matters worse, with each step it becomes more difficult to prove that the World Bank can even affect these outcomes. With infrastructure projects, for example, it is fairly obvious that the World Bank can build a road, if it wants to. There may be problems with maintenance, but those problems could be solved with particular measurable efforts.

The evidence on changing policies is much weaker. Pretty much the result is, aid does not change policies. The evidence is also such that aid does not change institutions, at least not for the better. It may change them for the worse, and God only knows what we may find ten years from now of the effect on post-conflict countries, of whatever the effort of the World Bank was.

With all of these problems, it seems we have moved ever farther and farther away from accountability. What needs to happen to reverse this trend of escalation and why has escalation happened?

Let's go back to the scholarly literature on development. One thing emerging more and more from the literature is that aid, and outside actors like the World Bank, cannot achieve development and transformation of other societies like poor countries in Africa. This is still a very controversial conclusion but seems to be borne out by a lot of evidence, such as the poor track record of the escalating interventions.

Development and transformation is just something that outside actors cannot achieve. They do not have the tools, the ability, the incentives, and accountability in place to do so effectively. Even if they did have the incentives and accountability, it is not clear that outsiders like the World Bank can achieve wholesale transformation of another society like the complex societies in low-income Africa.

Does that mean that all is lost? No. There are still a lot of good things that aid can do. Aid can do those small piecemeal things like building roads and maintaining them, like getting 12-cent medicines to children who would otherwise die from malaria, like sinking boreholes and getting clean water so that people don't get sick from contaminated water.

Aid can do small-scale things like the current project in the World Bank on the costs of doing business, in which you try to take specific piecemeal steps to lower the red tape of doing business in developing countries. Doing this creates opportunities for what is the real engine of development and transformation in low-income countries, which is the private sector and it's the homegrown efforts of local people themselves, both political leaders and private sector within African countries, within low-income countries themselves.

That is where development and transformation is going to come from, not from the outside actors.

If the World Bank is willing to focus on those more modest tasks, then feedback and accountability is feasible and the World Bank could achieve better results. If the aid community focused on these smaller tasks and held the World Bank accountable for achieving those results the roads that are not being maintained now actually could be maintained. The 12-cent medicines that are not reaching the children dying of malaria could reach the children dying of malaria, if the aid community focused on simple tasks like that and held the World Bank accountable for those tasks.

Otherwise, development will happen mainly because of what Africans do, because of what people in low-income countries do, and not because of what the World Bank does.

Notes

1. See Stephen Knack, "Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis," Policy Research Working Paper 2396, (Washington, D.C.: World Bank, 2000).